

2015 ANNUAL REPORT FOR THE

UNIVERSITY OF REGINA

TRUST AND ENDOWMENT FUND

University
of Regina



The University of Regina Trust & Endowment Fund – Overview

The University of Regina Trust & Endowment Fund (TEF) consists of 365 nonexpendable endowed trust accounts and 144 expendable non-endowed trust accounts. Each individual account was created for a specific purpose such as a scholarship and has terms of reference which govern the use of the funds. In addition, the University has institutional policies which govern the administration of the TEF with which each individual trust account must comply. As at December 31, 2015, the fair market value of the TEF was \$77.8 million. \$76.4 million of the TEF was managed by contracted professional investment managers and \$1.4 million was allocated to the UR Investment program in the Faculty of Business Administration.

Oversight of the TEF is provided by the Trust & Endowment Committee (TEC), which is a five person subcommittee reporting to the University of Regina Board of Governors. TEC members are University of Regina Board members or employees appointed by the Board of Governors. The TEC operates in accordance with terms of reference approved by the Board. The TEC makes operational decisions regarding the TEF and makes recommendations to the Board for approval on significant matters, in accordance with the terms of reference.

The TEC works closely with investment consultants Aon Hewitt to monitor and manage the TEF. Annually, the Statement of Investment Policies and Goals is updated by TEC with the advice of Aon Hewitt. The TEF portfolio consists of diversified investment accounts investing in domestic and international equities, fixed income and real estate. The goal of the annual update of investment asset mix is to obtain the required rate of return for the TEF within an acceptable level of investment risk. The primary long-term objective of the TEF is to generate a minimum annual real rate of return after inflation of 4% which is the rate necessary to support an annual expenditure of 4% of the endowed trust accounts in perpetuity. This objective enables endowed scholarship funds to pay out annual scholarships of 4% of the fund balance forever while maintaining the purchasing power of both the annual scholarship and the remaining trust fund balance.

Later in this report, investment returns are compared to “benchmark returns.” Those benchmark returns are established in relation to specific investment asset classes and economic circumstances to

assess investment performance, but the underlying primary objective remains to generate a real rate of return of 4% per year. As at December 31, 2015, the TEF has achieved this primary objective by exceeding a 4% real rate of return over the past one, four and ten year investment periods.

All TEF funds are invested as a pool of funds through several investment managers. The majority of the investment managers employed are also employed by the University of Regina Pension Master Trust Fund. By employing the same investment managers for the TEF and the University's two defined benefit pension plans, each of the three funds can be managed as separate funds, yet combined for investment manager fee calculations. This enables economies of scale to be reached which results in lower investment manager fees for both the TEF and the pension funds.

The one exception to all TEF funds being invested as a pool is in relation to the UR Investing program. Specific trust funds have designated that part of its assets be invested by UR Investing, with the resulting investment gains or losses being attributed directly back to those specific trust funds. UR Investing assets and investment returns are not comingled with the other TEF assets. As at December 31, 2015, \$1.4 million of the TEF assets were managed by UR Investing.

UR Investing is a program within the University of Regina Faculty of Business Administration. It is a structured program for degree credit which enables University students to learn about investments using real money and investing in real stock market investments through an external stock broker. The program is an example of the programs used to achieve the University's strategic goal of providing students with experiential learning environments.

The remainder of this report has been written by investment consultants Aon Hewitt. The report analyzes in detail the performance of the investment portfolio held by the TEF. The purpose of this analysis is to provide past, present and future benefactors to the University of Regina with information regarding the sound investment management practices employed by the University of Regina to ensure that the maximum benefit is derived from their gifts to the University.

Review of 2015 Investment Performance

The Markets

Global equity markets experienced a volatile and challenging investment environment, however returns were still generally positive in Canadian dollar terms, with the MSCI All Country World Index (a proxy for global equities including emerging markets) returning 17.1%. Some of the themes of the year included volatile equity markets, sluggish economic growth in most of the world, persistently low inflation and interest rates, a continued decrease in oil prices, and a depreciation of many of the world's currencies versus the U.S. dollar.

Equities

For the year ending December 31, 2015, foreign equity returns were strong in Canadian dollar terms, but weaker in local terms, as the depreciation of the Canadian dollar versus other currencies increased the return for Canadian investors. The Canadian market, as represented by the S&P/TSX Composite Index, fell 8.3%. The U.S. equity market, as represented by the S&P 500, was weak over the year, up 1.4% in U.S. dollar terms. The depreciation of the Canadian dollar versus the U.S. dollar increased the return for Canadian investors by an additional 20.2% over the year. International equities, as represented by the MSCI EAFE Index, were up 19.0% in Canadian dollar terms. The depreciation of the Canadian dollar versus the basket of EAFE currencies accounted for 13.7% of the 19.0% return. Across equity markets, the Energy and Materials sectors had the lowest returns for the year as oil and commodity prices continued to fall. The Health Care and Utilities sectors were generally strong in foreign markets.

Fixed Income

The Canadian bond market, as measured by the FTSE Universe Bond Index, was up 3.5% in the year ending December 31, 2015. Rates decreased along the yield curve, with the largest decrease occurring at the middle. Performance was directly proportional to the decrease in yields, with mid-term maturities outperforming long and short-term bonds. By sector, provincial bonds outperformed government and corporate bonds.

Fund Overview

Investment Performance (excluding UR Investing) - 2015

The University of Regina Trust and Endowment Fund (TEF) return was 8.5% in 2015 (excluding UR Investing).

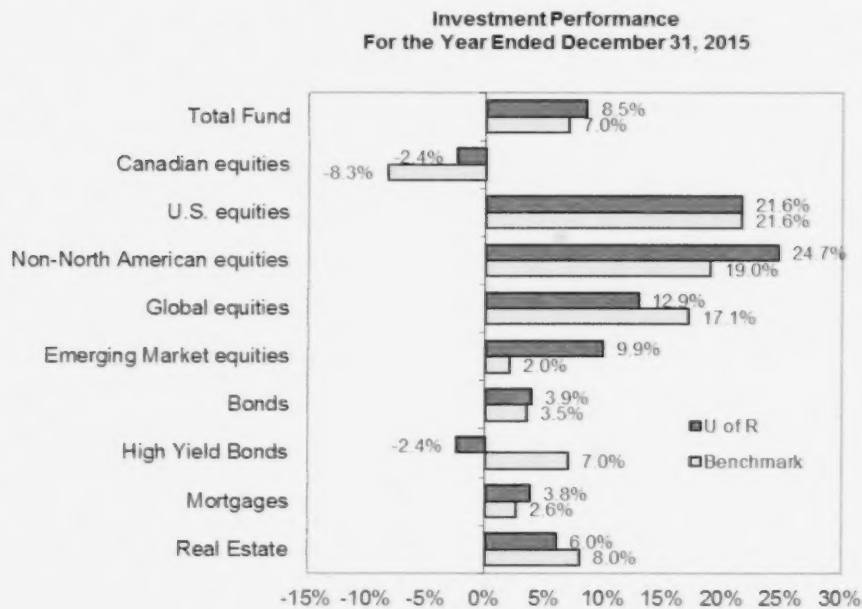
The TEF return tracked 1.5% ahead of the asset mix benchmark return of 7.0%, with value added driven by strong relative returns in Canadian, non-North American and emerging market equities.

Asset mix was slightly negative. Trends by asset class included:

- Particularly strong relative performance in Canadian equities, with both managers, Phillips, Hager & North (PH&N) and Mawer, contributing. PH&N added 1.5% to the - 8.3% S&P/TSX Composite Index. Mawer's 1.0% return was 9.3% above the Index, helped by large underweights in Energy and Materials and strong stock picks within these sectors.
- In the U.S. equity market, BlackRock's performance tracked very close to the S&P 500, which is the objective for this passive strategy.
- Mawer replaced PH&N as the Fund's non-North American equity manager in June of 2015. In the six full months of history with the Fund, Mawer added 3.6% to the MSCI EAFE Index. Mawer's stock picks in the Consumer sectors drove returns.
- GMO's global equity mandate lagged the 17.1% MSCI ACWI benchmark by 4.2% (net of fees), providing a 12.9% return. Positioning in value stocks and a double the Index weight in emerging market names detracted.
- GMO's emerging markets equity mandate was strong, returning 9.9% and adding 7.9% to the 2.0% MSCI Emerging Market Index in the year.
- PH&N manages a Universe Bond mandate and mortgages for the TEF. Over the year, total bonds returned 3.9%, above the FTSE TMX Universe Bond Index by 0.4%, due to

positioning in corporate bonds. Mortgages were subdued in the year, returning 3.8% versus the 2.6% FTSE TMX Short Term Bond Index.

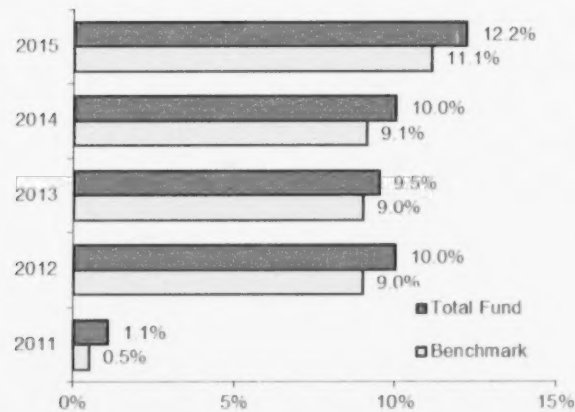
- In a difficult year for high yield bonds, BlueBay's high yield bond strategy struggled, falling 2.4% in the year versus their 7.0% hurdle rate.
- Real Estate is managed by Bentall and IAM. In the year Bentall returned 5.1% with IAM returning 8.2% versus the 8.0% IPD Benchmark. Returns were predominantly from income as capital appreciation within the real estate market has slowed.



Investment Performance – Rolling Four-Year Returns

The Fund's primary investment objective is to exceed their benchmark return over rolling four-year periods. The Total Fund return over the past four years was 12.2%, outpacing the benchmark by 1.1%. The following chart provides the longer-term track record of the Fund, with each period a rolling four-year result. The most recent result shows a strong absolute return led by equities. Over the past 10 years, the Total Fund return was 6.6% per year, which tracked 0.5% ahead of the benchmark return.

**Total Fund
Rolling Four-Year Returns**



Investment Performance – Relative to Peers

In addition to monitoring performance relative to the benchmark return, the Fund performance can be put in perspective by comparing the result against those of a universe of institutional funds. The table below shows the Total Fund return and individual asset class returns relative to other funds in the Aon Hewitt Universe for pooled funds over the past year and four-year periods.

The 2015 Total Fund result of 8.5 % placed well above the 5.4% earned by the median balanced pooled fund. Over the past four years, the Total Fund return of 12.2% exceeded the 10.0% median manager result.

2015 RELATIVE PERFORMANCE		
Asset Class	2015 Quartile ¹	4-Year Quartile ¹
Canadian equities	1	1
U.S. equities	2	3
Non-North American equities	1	2
Global equities	4	4
Emerging Market equities	1	n/a
Bonds	1	1
Mortgages	2	n/a
Real Estate	2	4
Total Fund	1	1
¹ Indicates the placement of the return relative to the Aon Hewitt Universe for institutional pooled funds. Quartile 1 include the top 25% of funds by return, Quartile 2 represents firms in the 26-49% range, M is the median return, and so on.		

By asset class, Canadian, non-North American and emerging market equities and bonds placed in the first quartile over the year, while global equities placed in the fourth quartile. The US equity result was above median, matching the Index result. Over four years, Canadian equities and bonds tracked in the top quartile. Non-North American equities were above median, while the U.S. and Global equity mandates were below median relative to the peer group.

Investment Performance Objectives

A number of performance objectives have been set out for the Fund. As noted above, the primary long-term objective is that the TEF achieve a minimum real rate of return of 4%. To achieve this, the TEF has adopted a secondary objective of exceeding the returns of the benchmark portfolio over rolling four-year periods.

Benchmark Portfolio Return and Asset Mix

The benchmark portfolio return is calculated by using index returns and target asset class weights. The current policy asset mix is shown below. Within the various asset classes, the objective is to exceed the relevant index return for actively managed mandates, and to track within 0.10% of the relevant index for passively managed mandates. In addition, the returns are evaluated on a relative basis to a universe of other institutional fund returns.

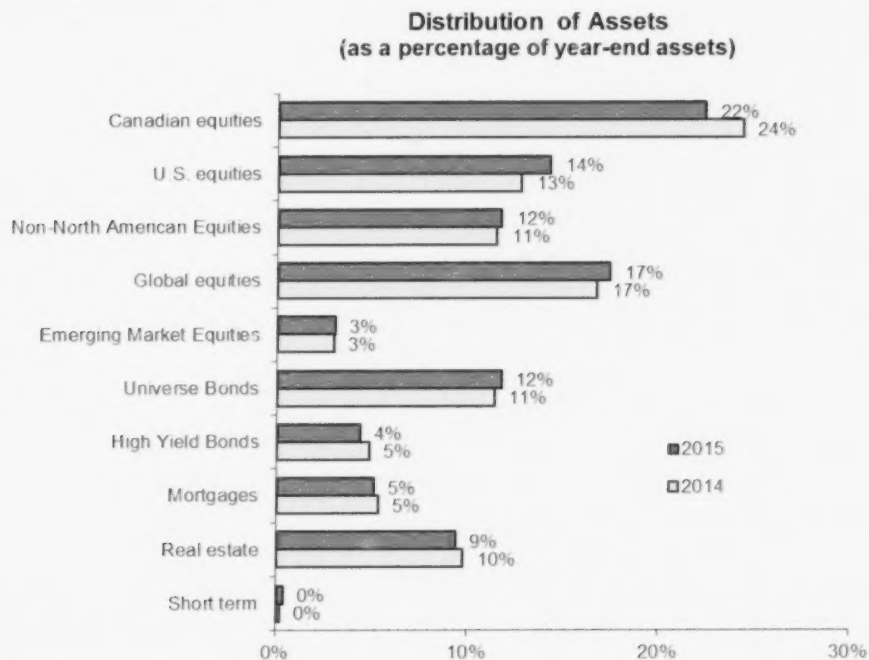
Asset Class	2015 Benchmark Portfolio (Market Value %)
Canadian equities	21%
U.S. equities	11%
Non-North American	11%
Global equities	17%
Emerging Market equities	3%
Bonds	12%
High Yield Bonds	5%
Mortgages	5%
Real estate	15%
Short-term investments	0%

The Trust and Endowment Fund

At the end of 2015, the TEF assets had a market value of \$76.4 million (excluding UR Investing). This is up from \$70.4 million at the end of 2014 as income and capital market gains grew the Fund.

The distribution of assets is shown below.

Asset Mix Summary



Distribution of Assets by Manager

At the end of 2015, Phillips, Hager & North (PH&N) managed approximately 26.7% of the TEF assets in a domestic balanced mandate (Canadian equities and fixed income). Mawer manages both a Canadian and a non-North American equity mandate. Grantham, Mayo and Van Otterloo (GMO) manages the Fund's Global and Emerging Market equities. BlackRock manages a passive U.S. equity fund. BlueBay manages an allocation to High Yield Bonds. And IAM and Bentall Kennedy oversee the investments in real estate.

Manager	Mandate	2015	2014
PH&N	Domestic Balanced	26.7%	39.1%
Mawer	Canadian & NNA equities	24.3%	13.5%
BlackRock	U.S. equities	14.3%	12.8%
GMO	Global & Emerging equities	20.5%	19.8%
BlueBay	High Yield Bonds	4.4%	4.9%
IAM	Real Estate	4.0%	4.0%
Bentall Kennedy.	Real Estate	5.8%	6.0%
		100.0%	100.0%